

WATER/ABJ/HJL:jrb**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION****RESOLUTION NO. W-4417****August 21, 2003****R E S O L U T I O N**

**(RES. W-4417), ALISAL WATER CORPORATION, (ALCO),
SALINAS DISTRICT. ORDER AUTHORIZING A RATE BASE
OFFSET, SUBJECT TO REFUND, PRODUCING ADDITIONAL
ANNUAL REVENUE FOR THE SALINAS DISTRICT OF \$396,200
OR 10.8%.**

SUMMARY

By Advice Letter No. 94, filed on June 12, 2003, ALCO seeks revision of tariff Schedule No. 1, General Metered Service, Schedule No. 4, Service to Privately Owned Fire Protection Systems, and Schedule No.6, Privately Owned Fire Hydrants, to provide for an increase in revenues of \$396,200 or 10.8% for its Salinas District. This increase is requested by the utility to cover expenses and earn its authorized rate of return of 10.72% on the \$1,295,300 of new plant installed since the last general rate increase in 1995. This increase will not result in a rate of return greater than that last authorized for ALCO's Salinas District.

BACKGROUND

ALCO, a Class B utility, currently provides water service to 8,214 metered customers in its Salinas District located in Monterey County. ALCO's Salinas District present rates became effective on March 24, 2003, pursuant to Resolution (Res.) No. W-4377, dated March 13, 2003 which granted a rate increase to offset receivership costs for for its San Jerardo and Buena Vista systems. ALCO's last general rate increase was granted pursuant to Res. No. W-3908 dated February 8, 1995. The authorized rate of return on rate base was 10.72%.

DISCUSSION

After its last general rate case (GRC) in 1995, to keep providing a safe and reliable water service, ALCO has made significant plant improvements in its

Salinas District. The net average rate base increase from 1995 to year 2002 is \$1,295,300. This is primarily due to the addition of new utility plant, which consists of wells, pumping equipment, water treatment plant, tanks, water mains, services, meters, hydrants, computer equipment, transportation, and office equipment. This new plant has been added over the years and has been verified by the Commission staff as being operational – therefore – used and useful.

In the years following the last GRC, ALCO's Salinas District had earnings that enabled it to approximately earn its authorized rate of return of 10.72%, due mainly to the addition of new customers during past years and improved efficiency of operations. However, the company does not expect the same level of growth for the next 3 or 4 years because the growth limits approved by the City of Salinas have been reached. During the last two years, operating costs and new plant investment increased faster than new customers resulting in a decrease in ALCO's Salinas District's return on investment to 0.13% in 2001 and 2.44% in 2002.

ALCO is requesting this rate base offset to partially mitigate this rate of return. While this return is probably lower than we would normally allow, it has been over seven years since ALCO's last GRC. We will authorize this increase, but our regulatory responsibilities require that we assess the overall operations of the company, and look at more than plant investment.

Therefore, we will approve this request subject to refund and require ALCO to file a GRC within the next twelve months.

ALCO's Salinas District current rate structure consists of three rate schedules: Schedule No. 1, General Metered Service, Schedule No. 4, Service to Privately Owned Fire Protection Systems, and Schedule No. 6, Privately Owned Fire Hydrants. The bill for an average residential customer using 22 Ccf of water per month with a 5/8 x 3/4 inch meter, will increase from \$29.06 to \$32.16, or \$3.10 or 10.67%.

NOTICE AND PROTESTS

A notice of the proposed rate increase was mailed to all customers, along with their water bill, beginning on June 16, 2003 and ending on July 10, 2003. There

were protests concerning the proposed rate base offset increase. The Division has responded in writing to each protestant explaining the need for the increase.

FINDINGS

1. The rate base offset increase sought by ALCO's Salinas District is based on actual plant additions from February 8, 1995, date of the last general rate increase, to December 31, 2002. The net rate base increase is \$1,295,300. This rate base increase has been verified by the Division staff.
2. The total increase will provide a 9.59% rate of return on a new rate base of \$4,271,900 based on 2002 recorded revenues and expenses.
3. This increase should be authorized subject to refund and ALCO should be required to file a GRC within the next twelve months.
4. The Commission finds, after investigation by the Water Division, that the changes hereby authorized are justified, and the resulting rates are just and reasonable.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 for Alisal Water Corporation to make effective, subject to refund, revised Schedule No. 1, General Metered Service, Schedule No. 4, Service to Privately Owned Fire Protection Systems, and Schedule No. 6, Privately Owned Fire Hydrants, attached to Advice Letter 94, and to cancel the corresponding presently effective rate schedules. The effective date of the revised schedules shall be five days after the date of this resolution.
2. Alisal Water Corporation shall track the revenues that result from this increase in a memorandum account.
3. Alisal Water Corporation shall file a General Rate Case no later than twelve months from the date of this order.

4. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on August 21, 2003; the following Commissioners voting favorably thereon:

WILLIAM AHERN
Executive Director